

Message Text

LIMITED OFFICIAL USE

PAGE 01 ACCRA 04044 01 OF 02 201037Z
ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 EB-08 COME-00 TRSE-00 OMB-01
SP-02 CIAE-00 INR-10 NSAE-00 OPIC-03 /047 W
-----059021 201144Z /11

R 191604Z MAY 78
FM AMEMBASSY ACCRA
TO SECSTATE WASHDC 3695
INFO AMEMBASSY COTONOU
AMEMBASSY LOME
AMEMBASSY LONDON

LIMITED OFFICIAL USE SECTION 1 OF 2 ACCRA 4044

LONDON FOR SEITZ

EO 11652: NA
TAGS: EINV, BGEN, BDIS, GH, US
SUBJ: VALCO DEMARCHE TO HEAD OF STATE ACHEAMPONG

REF: (A) ACCRA 3612 (B) ACCRA 3458

1. SUMMARY: ON MAY 12, THE PRESIDENT OF KAISER ALUMINUM, CORNELL MAIER AND OTHER TOP KAISER AND VALCO OFFICIALS CALLED ON HEAD OF STATE ACHEAMPONG TO APPRISE HIM OF THE CONSEQUENCES AND IMPLICATIONS OF THE JULY 6, 1977 AND APRIL 30, 1978 POWER FAILURES, THE LATTER OF WHICH COST VALCO 82 PERCENT OF ITS PRODUCTIVE CAPACITY AND AN ESTIMATED \$20 MILLION IN DIRECT AND INDIRECT COSTS (REFTELS). THE 45-MINUTE MEETING WAS CORDIAL. THE CHAIRMAN APPEARED TO ACCEPT THE VALCO RECOMMENDATION THAT THE GOG AND ITS SEMI-AUTONOMOUS VOLTA RIVER (ELECTRICITY GENERATING) AUTHORITY ACCELERATE CORRECTION OF THE KNOWN PHYSICAL PROBLEMS JEOPARDIZING ASSURED POWER PRODUCTION. THE CHAIRMAN LISTENED NONCOMMITTALLY TO
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ACCRA 04044 01 OF 02 201037Z

THE KAISER AND VALCO REQUESTS FOR COMPENSATION (TIMING AND TERMS TO BE NEGOTIATED), AND AN INCREASED EXPORT BONUS TO OFFSET RISING LOCAL CURRENCY COSTS. VALCO WILL PRESS FOR SOME COMPENSATION ARRANGEMENT. THE COMPANY WILL RESTART ITS POTLINES ONLY AS IT RECEIVES GOG ASSURANCES CONCERNING COMPENSATION AND ACCEPTANCE OF LIABILITY FOR ANY FUTURE POWER FAILURES.

VALCO HAS LAID OFF ABOUT ONE QUARTER OF ITS 2,400 MAN LABOR FORCE. THE OUTCOME OF THESE NEGOTIATIONS BETWEEN THIS LEADING PRIVATE AMERICAN INVESTOR, AND SYMBOL OF US-GOG COOPERATION, AND THE GOG COULD WELL IMPACT ON THE FULL RANGE OF US-GHANAIAI RELATIONS. END SUMMARY.

2. BACKGROUND. VALCO (VOLTA ALUMINUM COMPANY), WHOLLY-OWNED BY KAISER (90 PERCENT) AND REYNOLDS (10 PERCENT) OPERATES A \$200 MILLION ALUMINUM REDUCTION PLANT AT TEMA. THE INVESTMENT WAS UNDERTAKEN TOGETHER WITH THE USAID-FINANCED AKOSOMBO DAM HYDRO-ELECTRIC POWER PLANT IN A MUTUALLY DEPENDENT RELATIONSHIP. VALCO IS A NECESSARY MARKET FOR STEADY HARD CURRENCY SALES OF POWER, ENABLING THE VOLTA RIVER AUTHORITY (VRA) WHICH OPERATES THE POWER PLANT, TO SERVICE THE INTERNATIONAL LOANS. AT THE SAME TIME, VALCO ENJOYS AN ASSURED POWER SUPPLY AT BENEFICIAL RATES. VALCO REPRESENTS 80 PERCENT OF US, AND ABOUT 40 PERCENT OF TOTAL FOREIGN, PRIVATE INVESTMENT IN GHANA. STEMMING FROM UNDERSTANDINGS BETWEEN GHANA'S FIRST HEAD OF STATE, KWAME NKRUMAH, PRESIDENT KENNEDY AND EDGAR KAISER, VALCO IS A SYMBOL OF US-GHANAIAI ECONOMIC COOPERATION AND A LEADING FIRM IN GHANA'S INDUSTRIAL SECTOR. IN RECENT MONTHS, THE COMBINATION OF SHARPLY RISING LOCAL CURRENCY LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ACCRA 04044 01 OF 02 201037Z

COSTS, ABOVE ALL WAGES, TOGETHER WITH THE FIXED EXCHANGE RATE WHICH SERIOUSLY OVERVALUES GHANA'S CURRENCY, HAS THREATENED VALCO'S PROFITABILITY. IF PRESENT TRENDS CONTINUE, VALCO WILL OPERATE AT A LOSS FROM MID-1979. ON TOP OF THAT CONCERN, TWO POWER OUTAGES, JULY 6, 1977 AND APRIL 30, 1978 HAVE COST VALCO LOSSES ESTIMATED AT \$31.8 MILLION AS FOLLOWS:

POWER OUTAGE	DIRECT COST	LOSS OF POTLINE START UP PRODUCTION
JULY, 1977 (ACTUAL)	5.8	5.5
APRIL, 1978 (ESTIMATED)	9.0	11.5

LOSS OF PRODUCTION IS CALCULATED AT TEN CENTS PER POUND OF ALUMINUM.

3. THE APRIL 30 OUTAGE (REFTELS) HAS PROMPTED AN INTENSE REVIEW OF VALCO'S OPERATION IN GHANA AND A FLYING VISIT TO ACCRA OF TOP KAISER OFFICIALS HEADED BY PRESIDENT CORNELL MAIER. THESE OFFICIALS CALLED AT THE EMBASSY IMMEDIATELY PRIOR TO THEIR MAY 12 MEETING WITH THE HEAD OF STATE AND SUBSEQUENTLY PROVIDED AN ACCOUNT OF THAT MEETING AND THEIR CURRENT THINKING.

4. LABOR. WITH FOUR OF FIVE POTLINES FROZEN, VALCO NEEDS FEWER WORKERS. OF ITS LABOR FORCE OF 2,400, SOME 500 PERMANENT EMPLOYEES HAVE BEEN TERMINATED WITH SEVERANCE BENEFITS. ALSO, SOME 200 PLUS CASUAL LABORERS HAVE BEEN LAID OFF.

5. MEETING WITH HEAD OF STATE. AT THEIR MAY 12 MEETING WITH HEAD OF STATE I.K. ACHEAMPONG, THE KAISER AND VALCO OFFICIALS RAISED FOUR PROBLEMS AND OFFERED RECOMMENDATIONS. THE 45-MINUTE MEETING

WAS CORDIAL, NOT CONFRONTATIONAL. AN EMBARRASSED GENERAL ACHEAMPONG APOLOGIZED FOR THE LOSSES SUFFERED LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 ACCRA 04044 01 OF 02 201037Z

AS A RESULT OF THE VRA POWER OUTAGE, OFFERED TO

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 ACCRA 04044 02 OF 02 201045Z
ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 EB-08 COME-00 TRSE-00 OMB-01
SP-02 CIAE-00 INR-10 NSAE-00 OPIC-03 /047 W
-----059310 201144Z /10

R 191604Z MAY 78
FM AMEMBASSY ACCRA
TO SECSTATE WASHDC 3696
INFO AMEMBASSY COTONOU
AMEMBASSY LOME
AMEMBASSY LONDON

LIMITED OFFICIAL USE SECTION 2 OF 2 ACCRA 4044

COOPERATE FULLY, BUT DID NOT PROVIDE ANY CATEGORICAL ASSURANCES IN RESPONSE TO THE KAISER/VALCO RECOMMENDATIONS. THE FOUR PROBLEMS AND RECOMMENDATIONS FOLLOW:

A. RELIABILITY OF VRA'S GENERATING AND

TRANSMISSION SYSTEM. THE KAISER OFFICIALS IDENTIFIED THE KNOWN PHYSICAL PROBLEMS, I.E., THE CONDITION OF THE GENRATORS AT AKOSOMBO, THE TRANSFORMERS AT TEMA, AND THE TRANSMISSION LINE, TOGETHER WITH INTRA-VRA COMMUNICATIONS PROBLEMS (THE VRA CHAIN OF COMMAND FAILED IN EACH OUTAGE TO REACH PROMPT DECISIONS OR PROVIDE DIRECTION TO THE ENGINEERS AT AKOSOMBO) AND URGED THE GOG (1) TO ACCELERATE ITS EFFORTS TO CORRECT THESE PROBLEMS: AND (2) TO HAVE THE VRA STAFF REVIEW THE SYSTEM IN CONJUNCTION WITH INDEPENDENT SPECIALISTS. IT WAS THE KAISER OFFICIALS' IMPRESSION THAT THE HEAD OF STATE ACCEPTED THESE RECOMMENDATIONS BUT NO FORMAL COMMITMENT WAS MADE.

B. GOG RESPONSIBILITY FOR CONSTANT POWER SUPPLY. KAISER OFFICIALS POINTED TO THIS CONTRQCTUAL LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 ACCRA 04044 02 OF 02 201045Z

RESPONSIBILITY AS SET FORTH IN THE MASTER VALCO/GOG AGREEMENT OF 1962. THEY NOTED THAT VALCO WAS ENTITLED TO COMPENSATION FOR ALL LOSSES INCURRED AND SUGGESTED--VERY TENTATIVELY--THAT THE GOG CONSIDER CONSTRUCTING AN EMERGENCY STAND-BY POWER SUPPLY (E.G., AN OIL-FIRED GENERATING SYSTEM) AT AN ESTIMATED COST OF \$75 MILLION. THERE WAS NO RESPONSE TO THIS MILDLY-WORDED SUGGESTION OF AN ALTERNATIVE POWER SUPPLY, AND THIS PROPOSAL WILL PROBABLY BE DROPPED.

C. COMPENSATION DUE. KAISER OFFICIALS ASKED THE GOG FOR FULL COMPENSATION OF THE \$31.8 MILLION, BUT MADE IT VERY CLEAR THEY WERE COMPLETELY FLEXIBLE ON TIMING (I.E., INSTALLMENT PAYMENTS OVER YEARS) AND

TERMS (I.E., PAYMENT IN CEDIS). FYI THE AMOUNT OF THE COMPENSATION IS ALSO NEGOTIABLE. ALTHOUGH NOT MENTIONED AT THE MEETING, AND HENCE UNKNOWN TO GOG, VALCO WILL PROBABLY FILE A FOMAL LEGAL CLAIM UNDER THE MASTER AGREEMENT (WITH ITS ARBITRATION PROVISIONS) IF THE GOG DOES NOT OFFER SOME ACCEPTABLE AMOUNT OF COMPENSATION. END FYI.

D. PROFITABILITY. SINCE 1972, WAGE RATES HAVE RISEN 455 PERCENT AND POWER COSTS 80 PERCENT, WHILE VALCO'S INCOME (FROM SALE OF ALUMINUM) HAS INCREASED ONLY 89 PERCENT. PAYROLL COSTS ALONE ROSE 45 PERCENT IN 1975; 50 PERCENT IN 1976; AND 100 PERCENT IN 1977. AT THE 1976/77 AVERAGE RATE OF INCREASE, VALCO WILL BECOME UNPROFITABLE IN MID-1979. DESPITE THE PAY RAISES, THE REAL PURCHASING POWER

OF VALCO'S EMPLOYEES IS DECLINING AS THE INFLATION
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 ACCRA 04044 02 OF 02 201045Z

RATE IS RISING FASTER THAN WAGE INCREASES. THE
KAISER OFFICIALS REQUESTED AN IMMEDIATE INCREASE IN
THE EXPORT BONUS ON REMITTANCES AND POWER PAYMENTS
FROM THE PRESENT 20 TO 30 PERCENT, AND THAT THE GOG
ADOPT AN EXPORT BONUS SYSTEM THAT IS MORE RELIABLE
AND EQUITABLE FOR VALCO AND OTHER EXPORTERS.
AGAIN, THE HEAD OF STATE MADE NO COMMITMENT.

6. NEXT STEPS. AT PRESENT, THERE IS ONE (OFHJTL
POTLINES IN OPERATION AT VALCO. VALCO'S TENTATIVE
SCHEDULE, SUBJECT TO GOG ASSURANCES, IS TO START UP
THE LINES AT TWO-MONTH INTERVALS BEGINNING WITH THE
SECOND LINE JULY 1 (THE THIRD, SEPTEMBER 1; THE
FOURTH, NOVEMBER 1). THE START-UP DATE OF THE FIFTH
AND FINAL LINE WOULD BE DETERMINED AFTER CORRECTION
OF THE DEFECTS IN THE VRA SYSTEM, INCLUDING THOSE
DISCOVERED DURING THE REVIEW (PARA 5.A ABOVE).
FURTHERMORE, PRESIDENT MAIER PLANS TO RETURN IN MID-
JUNE TO REASSESS THE SITUATION AND VALCO WILL START-UP
ITS SECOND LINE ONLY IF KAISER IS SATISFIED WITH THE
ASSURANCES OBTAINED FROM THE GOG CONCERNING POWER
SUPPLY AND COMPENSATION.

7. COMMENT: THESE DEVELOPMENTS ARE SIGNIFICANT FOR
US-GHANAIAAN RELATIONS IN THE FOLLOWING WAYS:

A. AS THE MAJOR SYMBOL OF US-GHANAIAAN
COOPERATION (BOTH PUBLIC AND PRIVATE), ANY BREAKDOWN
OF VALCO'S 15-YEAR SMOOTH WORKING RELATIONSHIP WITH
THE GOG/VRA WOULD STRENGTHEN GENERAL ACHEAMPONG'S
CONCERNS OVER US SUPPORT (ACCRA 4004) AND NECESSARILY
IMPACT ON THE FULL RANGE OF US-GHANAIAAN RELATIONS:

B. WORKER LAYOFFS. VIRTUALLY NO FOREIGN FIRM
HAS LAID OFF ANY WORKERS SINCE 1972, SINCE THE LABOR
COMMISSIONER (MINISTER) INFORMED EMPLOYERS THAT GOG
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 ACCRA 04044 02 OF 02 201045Z

PERMISSION TO DO SO WAS REQUIRED, AND SUCH REASONS
AS FAILURE TO OBTAIN RAW MATERIAL IMPORTS WOULD NOT
BE CONSIDERED SUFFICIENT JUSTIFICATION FOR SUCH LAYOFFS.
THUS, THE MOST PROMINENT US FIRM IS SETTING AN
EXAMPLE WHICH OTHERS MAY FOLLOW, WITH THE POTENTIAL

FOR SERIOUS POLITICAL COMPLICATIONS FOR THE GOG:

C. A MAJOR BUSINESS DISPUTE WOULD FURTHER CHILL
(IF THAT'S POSSIBLE*) THE ALREADY FRIGID INVESTMENT
CLIMATE. SMITH

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEMARCHE, HYDROELECTRIC POWER PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ACCRA04044
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780212-1129
Format: TEL
From: ACCRA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780542/aaaabjbq.tel
Line Count: 283
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 37568c9a-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 ACCRA 3612, 78 ACCRA 3458
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 19 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2644278
Secure: OPEN
Status: NATIVE
Subject: VALCO DEMARCHE TO HEAD OF STATE ACHEAMPONG
TAGS: EINV, BGEN, BDIS, GH, US, VALCO, (ACHEAMPONG, IGNATIUS KUTU)
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/37568c9a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014